

Audit Committee – 26 September 2016

Internal Audit Progress Report Quarter 2 2016/17

Summary of report

The purpose of this report is to update the Audit Committee on Internal Audit's progress for 2016/17.

Background papers

Internal Audit reports/monitoring information.

Recommendation

1. To note the contents of this report.



James T. Walsh – Chief Finance Officer
9 June 2016

Resource and legal considerations

The Accounts and Audit Regulations 2015 came into effect on 1 April 2015 and require councils to undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards or guidance.

Governance issues

The Audit Committee's activities include ensuring that an effective internal control environment is maintained and regular and ongoing scrutiny of internal audit work undertaken. This report supports the Audit Committee in exercising that role.

Citizen impact

Internal Audit work is intended to ensure that effective systems of internal control are in place. This protects the council and its officers and provides an assurance to stakeholders and citizens regarding the security of the council's operations.

Performance and risk management issues

Part of Internal Audit's role is to provide assurance on the council's performance and risk management arrangements. Internal Audit's programme of work is risk assessed to ensure areas most at risk are examined as a priority.

Equality implications

Internal Audit has full regard to equalities both within the internal audit service and in the services / activities under review.

Consultation

The annual work plan 2015/16 was consulted upon before its final endorsement by executive directors, senior managers, the Chief Finance Officer and Audit Committee.

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Internal Audit Progress Report 2015/16

1. Purpose of this report

- 1.1 This report summarises the work that Internal Audit has undertaken during the year ending 31 March 2016. It also highlights any key issues with respect to the overall system of internal control.

2. The Internal Audit process

- 2.1 Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council to accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. In addition, the other objectives of the function are to:

- support the responsible financial officer to discharge their duties as proper officer;
- support the delivery of corporate objectives and the continuous improvement agenda; and
- provide a corporate fraud / investigation service that safeguards the public purse.

- 2.2 Each year the Audit Committee endorses the Internal Audit plan for the financial year. The majority of the work that Internal Audit undertakes is designed to provide assurance to members and management on the operation of the internal control environment as part of the overall governance assurance process. Internal Audit work undertaken includes actions agreed with management that improve the adequacy and effectiveness of the controls already in practice.

3. Progress for the year ending 31 March 2016

- 3.1 Internal Audit's work comprises of planned and unplanned assurance, which is summarised in the following table.

Planned Assurance	An assurance service which provides an independent and objective opinion to the organisation of the control environment, by evaluating its effectiveness in achieving the organisations objectives. The service objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. This is achieved via internal audit's risk assessed audit plan.
Unplanned Assurance	<ul style="list-style-type: none">- Prevention, detection and investigation of fraud and corruption; and other irregularity.- Advisory and consultancy related services which are carried out to improve services and to add value, including the impact of proposed policy initiatives, programmes and projects as well as emerging risks.

- 3.2 A detailed summary of Internal Audit's unplanned assurance work undertaken for the year ending 31 March 2016 is detailed in a separate report in private session this evening.
- 3.3 A summary of all planned and planned follow up work undertaken and finalised during the year ending 31 March 2016 is detailed at Appendix 1. This includes the assurance level given (definitions of which are included in **Appendix 2**). During the early part of the year much of the planned audit activity is in finalising work relating to the previous year's plan (2014/15), this element of time is planned for and 2015/16 was no exception.

4. Compliance with professional standards

- 4.1 A compliance checklist has been produced by Internal Audit against the Public Sector Internal Audit Standards (PSIAS) which came into effect from 1 April 2013 and Internal Audit's progress against the standards has been regularly reported to Audit Committee (24 June 2013, 2 September 2013, 24 February 2014, 1 September 2014, 9 November 2015).
- 4.2 Of the 206 point checklist which makes up the PSIAS, only 10 points now remain outstanding, all relating to one action which is the requirement for a 5 yearly external assessment of internal audit's PSIAS compliance, to be undertaken by April 2018. The Chief Finance Officer reviewed Internal Audit's current self assessment in June 2016 and confirmed that evidence was available to support the above statement.
- 4.3 From 2016/17, the Internal Audit service is being delivered through a contract arrangement with Mazars who have confirmed that they will be subject to an external assessment of Mazars compliance with PSIAS in summer 2016, the outcome of which will be reported to Audit Committee.

5. Performance

- 5.1 Internal Audit's performance against measures for the year period ending 31 March 2016 is detailed below. The direction of travel is given from that previously reported at 2014/15 year end.

	Measure	Actual	'RAG'	Direction of Travel
Audit time budgeted v actual	1,050 days (1,525 14/15)	1,060 days (1,510 14/15)	A	↓
Draft Reports issued within 8 weeks of audit start date	80%	73%	A	↑ (64% in 14/15)
Audit report actions agreed	95%	99%	G	↔ (99% in 14/15)
Relationships / Customer Satisfaction	95%	100%	G	↔ (100% in 14/15)

	Measure	Actual	'RAG'	Direction of Travel
Productivity rate	90%	86%	A	↑ (85% in 14/15)
Sickness – average working days lost per employee (internal audit) against target	7 days	7 days	G	↓ 4 days in 14/15)

5.2 Internal Audit's expenditure was within its approved budget for the period. In summary, Internal Audit has made some progress against its measures during the period, with half on target or green 'RAG' rated. 3 measures are 'RAG' rated amber namely;

- 1) Audit time budgeted versus actual – this was only slightly over the budgeted time.
- 2) Draft reports issued within 8 weeks of start date – this has improved significantly but still below the required measure.
- 3) Productivity rate - the direction of travel on this measure is positive compared to 2014/15, however it is still just below the required measure.

5.5 A new measure was introduced for 2014/15, audit time budgeted against actual days spent. This measures the actual time the audit team spent on completing audits which were produced during the period against the time allocated in the audit plan and is a measure of the efficiency of the team. In the year ending 31 March 2016, of reports finalised, the team should have completed the audits within 1,050 days but actually completed them within 1,060 days. This is slightly over the time budgeted.

5.6 76% (110) of the audits planned to be completed in 2015/16 (144) and included in the plan approved by Audit Committee have been completed. As is normally the case, there are some amendments to the audit plan through the year as risk profiles change. All of the audits not completed (34) have been removed, deferred or assurance has been provided via a different means. These audits are shown in Appendix 1.

5.7 Progress against the 2015/16 planned programme of work has been slightly below that anticipated, specifically in the latter quarters of the year. There were a number of vacant posts and 1 employee on maternity leave during the year which has had an impact upon the resources available to complete the planned programme of work. Despite this, two measures improved on the previous year's performance.

6. Conclusion

6.1 Whilst it is acknowledged that during the latter quarter in particular, progress against the plan has been slower than anticipated, all key financial systems audits were completed within the plan and all high priority audits. Audit Committee can be assured that no issues have been identified in the 2015/16 work completed which impacts materially on the overall system of internal control.